GOVERNMENT OF INDIA
URBAN DEVELOPMENT
LOK SABHA

UNSTARRED QUESTION NO:5096
ANSWERED ON:11.05.2007
PROGRESS REPORT OF LOCAL BODIES
Nikhil Kumar Shri

Will the Minister of URBAN DEVELOPMENT be pleased to state:

:

(a) whether the Union Government has permitted urban local bodies to raise funds from the market on a sustainable basis to meet investment needs ;

(b) if so, the details thereof ;

(c) the progress made by the local bodies in raising funds ;

(d) whether sufficient provision for not utilizing the funds for other purposes have been made; and

(e) if so, the details thereof ?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF URBAN DEVELOPMENT (SHRI AJAY MAKEN)

(a)&(b) : Yes, Sir. In 2000-01, the Government inserted a new clause (vii) in Section 10(15) of the Income Tax Act, 1961, exempting interest income from bonds issued by local authorities. Recently guidelines for issue of municipal tax free bonds have been revised in consultation with the Ministry of Finance and circulated to all the State Governments and UT Governments on 7th March, 2006. In addition, the Government has set up a Pooled Finance Development Fund recently to provide credit enhancement to urban local bodies to access funds from capital market based on their credit worthiness for funding their bankable urban infrastructure projects. This scheme has been approved by the Government on 29.9.2006.The broad objectives of Pooled Finance Development Fund (PFDF) are to:-

(i) facilitate development of bankable urban infrastructure projects through appropriate capacity building measures and financial structuring of projects;

(ii) facilitate Urban Local Bodies (ULBs) to access capital and financial markets for investment in critical municipal infrastructure by providing credit enhancement grants to State Pooled Finance Entities (SPFEs) for accessing capital markets through Pooled Financing Bonds on behalf of one or more identified ULBs for investment in identified urban infrastructure projects;

(iii) reduce the cost of borrowing to local bodies with appropriate credit enhancement measures and through restructuring of existing costly debts; and.

(iv) facilitate development of Municipal Bond Market.

For implementing Pooled Finance Mechanism, a State Pooled Finance Entity (SPFE) is required to be set up in each State. SPFE is to be set up by the State which could either be a Trust or a Special Purpose Entity, provided the Entity is only a pass through vehicle. The basic advantage of setting up of SPFE is that it would enable the ULBs to enter the bond market on a regular basis and take advantage of scaled up operations. Further, efficient SPFEs can generate fair degree of goodwill in the bond market and may be able to achieve much higher levels of efficiency in operations than individual ULBs. Most importantly, it would be able to hedge risks against much larger spectrum of activities than individual ULBs.

The Central Government would support SPFEs through the PFDF. Of the funds made available with the Central Government for PFDF, 5% would be utilized for project development assistance. Balance 95% would be utilized for contribution to the Credit Rating Enhancement Fund (CREF) to improve the credit rating of the Municipal Bonds to investment grade.

(c): A statement showing the ULBs/Corporations that have been granted permission to raise funds through issue of Tax Free Municipal Bonds is enclosed at Annexure-I.

(d)&(e): Yes, Sir. Funds raised from Tax Free Municipal Bonds are to be used only for capital investments in urban infrastructure for providing one or more of the following:-

1. Potable Water Supply

2. Sewerage or Sanitation

3. Drainage

4. Solid Waste Management

5. Roads, Bridges and Flyovers; and 6. Urban Transport (if this is a municipal function under respective state legislation).@@

ANNEXURE-I ANNEXURE REFERRED TO IN REPLY TO PART (c) OF LOK SABHA UNSTARRED QUESTION NO. 5096 FOR ON 11.05.2007

TAX FREE MUNICIPAL BONDS

Urban Local Bodies/Parastatals which have been granted permission

Sl. No.	Name	Amount (Rs.in crore)	Date of Gazette of Notification
1	Ahmedabad Municipal Corporation	100.00	21.08.01
2	Hyderabad Municipal Corporation	82.50	04.03.02
3	Nashik Municipal Corporation	50.00	07.03.03
4	Visakhapatnam Municipal Corporation	50.00	29.12.03
5	Hyderabad Metropolitan Water Supply and Sewerage Board	50.00	29.12.03
6	Ahmedabad Municipal Corporation	58.00	16.03.04
7	Chennai Metropolitan Water Supply and Sewerage Board	42.00	24.3.04
8	Karnataka Water & Sanitation Pooled Fund Trust	100.00	20.08.04
9	Chennai Metropolitan Water Supply and Sewerage Board	50.00	23.03.05
10	Chennai Corporation	44.80	24.03.05
11	Ahmedabad Municipal Corporation	100.00	24.03.05
12.	Nagpur Municipal Corporation	128.00	4.1.2007
13.	Ahmedabad Municipal Corporation	150.00	8.3.2007

Permission granted in 2004-05 and subsequently revalidated in 2005-06 at the instance of the applicant.